Department of Human Services

Introduction

The Department of Human Services was established in July 1994 to administer, manage, and oversee the delivery of human services throughout the State. It accomplishes this through a variety of state-operated facilities and programs, county-operated programs, and contractual arrangements with public and private human service providers across the State. In Fiscal Year 1998 the Department expended approximately $1.2 billion and had 4,272.8 full-time-equivalent staff (FTE).

The Department comprises ten major offices, five of which perform administrative functions such as budgeting, human resource management, development and maintenance of information systems, operations and fiscal management, and oversight of relations with external entities such as constituency groups, the General Assembly, and other state and local agencies. The remaining five offices are responsible for overseeing or operating a wide spectrum of programs and services such as welfare reform and public assistance, vocational rehabilitation and mental health services, child welfare, aging and adult services, drug and alcohol treatment and rehabilitation, developmental disability services, and subsidized child care and child care licensing. The Department also operates the State's youth corrections system and is responsible for a number of 24-hour-care facilities. These include two state mental health institutes, five state and veterans nursing homes, and three regional centers for persons with developmental disabilities.

Generally, we found that the Department has adequate administrative and internal controls in place to oversee its operations and meet state and federal requirements. We identified five areas where improvements could assist the Department in effectively managing its responsibilities.

Implement On-Site Monitoring of County TANF Activities

In 1996 Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), was signed into federal law as part of reforming the national welfare system. As part of this act the former Aid to Families With Dependent Children (AFDC) program was replaced by the Temporary Assistance for Needy Families (TANF) program. All states were required to have a plan for TANF implementation approved and the program in place by July 1, 1997, or the beginning of state Fiscal Year 1998. In Colorado, TANF was established as the "Colorado Works" program.

In Fiscal Year 1998 the Department expended over $190 million in federal financial assistance and state general funds for the operation of TANF. TANF was one of the largest federal grants administered in Colorado in Fiscal Year 1998, ranking sixth overall in terms of expenditure levels. The TANF program is overseen by the Department's Office of Self-Sufficiency and administered locally by the county departments of social services.

Memorandums of Understanding (MOUs) Place New Responsibilities with the Counties

Colorado has taken a unique approach among states in how it has chosen to implement TANF. While the State has traditionally maintained a welfare system in which the counties rather than the State administered the program, under welfare reform the State has made further efforts to pass significant amounts of responsibility to the county level. In recognition of this, the Department and the counties entered into performance contracts, or MOUs, that outline the responsibilities of both parties for the administration and implementation of TANF.

Under the MOUs counties continue to be solely responsible for determining recipients' eligibility and the amount of benefits they will receive, as well as for maintaining adequate records. This equates to control of approximately $140 million in TANF benefit payments for Fiscal Year 1998. In addition, the counties are now responsible for meeting key new requirements that are part of welfare reform. Specifically, counties must monitor their expenditures and ensure that certain levels are met; these are referred to as "maintenance of effort" requirements. Counties also must achieve target work participation rates among TANF participants. For federal Fiscal Year 1998, these rates were 30 percent for all families and 75 percent for two-parent families. The work requirements will increase to 35 percent and 90 percent, respectively, for federal Fiscal Year 1999.

At the state level, the Department of Human Services is responsible for overseeing the implementation of TANF. The Department is also the entity ultimately responsible to the U.S. Department of Health and Human Services for ensuring that the State as a whole properly administers the TANF program and meets federal requirements such as maintenance of effort and work participation rates. Because of the level of responsibility vested with the counties, the Department must monitor county activities in order to meet its responsibilities.

Department Has Not Conducted On-Site Reviews of Counties Under TANF

Prior to Fiscal Year 1997 the Department routinely conducted on-site reviews of county activities for the AFDC program. In this manner the Department determined compliance with state and federal regulations regarding applicants' eligibility, allowability of expenditures, timeliness of application screening and acceptance, file documentation, and related county procedures. Department staff discontinued the AFDC reviews at the beginning of Fiscal Year 1997 because of the efforts needed to meet the major changes under federal welfare reform that were to be implemented at the beginning of Fiscal Year 1998. Throughout Fiscal Year 1997 staff were involved in developing the Colorado Works program and assisting counties in planning for the transition to TANF.

During Fiscal Year 1998, the first year of TANF operations, we found that the Department had not developed and implemented an on-site review process for overseeing the counties' implementation and administration of TANF. Staff reported that efforts were still being directed toward completing program implementation. Instead, the Department monitored county activities by reviewing reports generated from its information system that contains county self-reported data. While the system contains controls preventing some erroneous data from being entered, the Department still needs to ensure that data reported by the counties are appropriately and accurately entered and are therefore a valid representation of county TANF activities. Thus, reviewing county reports is not a sufficiently reliable form of subrecipient monitoring in terms of determining program compliance.

Federal regulations identify various factors for determining the risk of noncompliance with program requirements. One such factor that can indicate higher risk is an instance in which a new program with significant legal and regulatory changes has been implemented. TANF is currently an example of this type of situation. Therefore, it is important that the Department has a reliable and effective method for monitoring county activities. We also noted that the Department has maintained on-site county monitoring practices for the Food Stamp program, although this program has been largely unaffected by welfare reform.

Better Monitoring Could Help Ensure Goals Are Met

The importance of monitoring county TANF activities is underscored by the fact that the State as a whole will be held accountable for meeting federal requirements such as maintenance of effort and work participation rates. If the Department does not identify problems and help the counties to address them, the State could be at risk of failing to meet statewide targets and could face federal sanctions.

The Department and the counties have made a concerted effort to put into place the new structures and requirements under welfare reform. By developing an on-site review process, the Department can further identify ways to assist the counties in their key roles under TANF and the Colorado Works program. This will help ensure that state and federal requirements are met at both the local and statewide level.

Recommendation No. 13:

The Department of Human Services should develop and implement a formalized plan for on-site monitoring of county activities for the Temporary Assistance for Needy Families (TANF) program to ensure that federal and state requirements are met.

Department of Human Services Response:

Agree. The Department of Human Services intends to begin on-site monitoring in regards to the TANF Program. The process is to be developed and in place to begin by July 1, 1999.

Implementation date: July 1, 1999.

Improve Efforts in Cash Management Area

In Fiscal Year 1998 the Department administered 83 federal programs for which it expended $515.1 million in federal funds. The Department is responsible for tracking expenditures and earned revenues for these programs, as well as related receivables from the federal government. The Department operates on a reimbursement basis with the federal government for its grants. This means that it uses state general funds to make federal program expenditures and then requests reimbursement from the federal government for the appropriate federal share of the expenditures. The federal Cash Management Improvement Act (CMIA) requires that a state request the transfer of federal funds as close as possible to the time the state expends funds for the program. This is required in order to ensure that neither the federal government nor the state realizes an unfair financial advantage from use of the other entity's funds.

Department's Oversight of Federal Receivables Has Improved

During our Fiscal Year 1997 financial audit we identified areas for improvement within the Department's cash management area. Specifically, we found that the Department should develop a more comprehensive fiscal management system for federal programs in three areas. The Department needed to:

- Designate a central point of responsibility for federal grant management.

- Implement an integrated monthly reconciliation process encompassing all program-related financial grant activity.

- Institute a process that would enable them to identify the amount and timing of cash draws and to track information linking specific disbursements to cash draws and cash receipts.

We found that the Department made noticeable improvements to its fiscal management system for federal programs during Fiscal Year 1998 that allowed them to address these three concerns.

Electronic Benefit Transfer (EBT) Service Implementation Has Increased Demands on Cash Management Process

While the Department demonstrated significant efforts in improving its process for federal cash management, we noted that the Department's implementation of a new system for delivering welfare and public assistance payments during Fiscal Year 1998 had a significant impact on these efforts. Specifically, this new system, EBT, substantially changed the way in which disbursements related to federal programs are accounted for and recorded on the Colorado Financial Reporting System (COFRS), and as a result, affected the Department's process for determining appropriate cash draws.

Under EBT recipients access benefits for public assistance and welfare programs such as Temporary Assistance for Needy Families, Food Stamps, Low Income Energy Assistance, Old Age Pension, Aid to the Needy Disabled, and Aid to the Blind through the use of a debit card at a point-of-sale device or automated teller machine. The EBT service is also used to make direct deposit payments (electronic fund transfers) to providers under the Low Income Energy Assistance Program, child care, and child welfare programs. Approximately $320 million of the $515.1 million, or 62 percent, in federal grant expenditures were for programs administered through the EBT service in Fiscal Year 1998.

In Fiscal Year 1996 the Department awarded a contract to an outside fiscal agent to provide the delivery of EBT services in Colorado. On a daily basis, the fiscal agent, currently Citibank, reimburses vendors and owners of automated teller machines for benefits paid to public assistance and welfare recipients. The Department, in turn, reimburses the fiscal agent on a daily basis for the reimbursement payments it has made that day. This daily reimbursement method has resulted in additional demands on the Department's cash management process because the Department needs to request federal reimbursement more frequently than in the past in order to meet federal regulations.

Central responsibility for the Department's cash management process lies with its Program Accounting Section. The Program Accounting Section is responsible for tracking expenditures for federal programs and calculating resulting earned federal revenue and receivables. Program Accounting staff also ensure that appropriate cash draws for federal reimbursement are made in a timely manner. Information obtained from the Department's County Accounting Section drives this process. County Accounting staff are responsible in part for tracking and reconciling benefit amounts authorized for welfare recipients and reimbursement amounts paid to Citibank. This responsibility includes ensuring that amounts authorized and paid are recorded on COFRS.

As noted above, EBT requires the Department to request federal reimbursement more frequently than in the past. In order to do this, Program Accounting staff must have cash disbursement and program information on a daily or otherwise timely basis. However, the Department's existing accounting systems do not have the capabilities to track the appropriate level and type of information needed to determine the amount of federal cash draws that should be made for specific programs. Because of this, during much of Fiscal Year 1998 Department staff focused efforts on determining the best alternative process for estimating program expenditures and making timely draws. As a result, we found that the Department had some difficulty in managing its cash flows during the year.

Cash Draws of Federal Funds Were Not Made Timely

We also noted that the Department's methodology does not allow it to link specific disbursements to cash draws and cash receipts as required by federal CMIA regulations. More notably, this approach resulted in draws for three EBT programs being made up to a month after state general funds were used to make the original payments to Citibank.

We calculated the potential interest lost to the State due to the Department's late draws of federal funds for payments made to Citibank. Because we were unable to link a number of specific disbursements to cash receipts, we often could not determine the exact lag between the Department's payments and cash receipts. However, we estimated that if the Department drew federal funds ten business days late for three of its EBT programs (Temporary Assistance for Needy Families, Child Care Development Fund, and Low Income Energy Assistance), the State could have lost approximately $107,000 in interest during the second half of Fiscal Year 1998. Since staff were focusing efforts reorganizing the Department's fiscal management function during the first half of Fiscal Year 1998, we did not include that time period in our estimate.

Timely Draws Will Assist With Overall State Cash Management

The Department plans to implement a new internal financial system for reimbursing county departments of social services, the County Financial Management System, during the first quarter of Fiscal Year 2000. Staff believe that this system will assist them in determining the appropriate breakdown of expenditure levels by program in a timely manner, and thus permit them to make daily cash draws from the federal government.

Recommendation No. 14:

The Department of Human Services should continue efforts to improve its fiscal management system for federal programs by:

a. Implementing a method for identifying payments made for Electronic Benefit Transfer (EBT) programs by grant, requesting appropriate cash reimbursement in a timely manner, and tracking information linking specific disbursements to cash draws and cash receipts.

b. Ensuring that future changes that affect its cash management and accounting process are included in planning efforts and incorporated into the overall grant management process.

Department of Human Services Response:

a. Agree. The Department plans to implement this recommendation by the statewide implementation of a new County Financial Management System

(CFMS) on July 1, 1999. The CFMS System will determine the program expenditures and calculate the federal revenue on a daily basis. This information will be fed to COFRS, which will set in motion the daily cash draw process.

In addition, the Department recognized the cash draw deficiency with the Legacy system and therefore began a procedure of estimating expenditures, revenue, and cash needed to meet CMIA requirements. As of this writing (January 29, 1999), the Department plans to implement CFMS on July 1, 1999. However, we would like the implementation date of this recommendation to be March 31, 2000, to give us a chance to work out any implementation problems.

Implementation date: March 31, 2000

b. Agree. The planning efforts for the new CFMS System address the cash management concerns identified in this audit recommendation. The Department recognized this problem, but the resources required to fix the Legacy system were not available. Since the Department was committed to developing a new CFMS System, resources were directed to developing CFMS rather than significant efforts required to fix the Legacy system.

Implementation date: March 31, 2000

Strengthen Monitoring of Subrecipients

In Fiscal Year 1998 the Department expended over $515.1 million in federal awards. Of this, $427.9 million, or about 83 percent, was passed through to approximately 1,000 subrecipients. Federal regulations designate primary recipients such as the Department of Human Services as the principal agency responsible for ensuring federal program requirements are met.

The Department employs various means to ensure funds are spent appropriately. These include such activities as on-site program and fiscal reviews and, in some cases, statistical monitoring. Federal regulations also require that the Department obtain and review the annual audit reports of subrecipients that expend $300,000 or more in federal awards during their fiscal year and follow up on instances of noncompliance to ensure corrective action is taken. Subrecipients with this level of expenditure must have an annual audit in compliance with federal requirements under the Office of

Management and Budget Circular A-133. Audits performed under Circular A-133 include specific testing and reporting related to federal programs.

The Department has designated the Field Audits Section as the unit responsible for ensuring that subrecipients send the appropriate audit reports to the Department. The Section is also primarily responsible for performing the review of audits required under Circular A-133. In some cases Field Audits is assisted in this function by personnel from other areas of the Department.

The Department Needs to Improve Method to Identify Subrecipients

During our Fiscal Year 1996 audit we noted that the Department was adequately monitoring annual audit reports from the counties, which received about 80 percent of the federal funds passed through to subrecipients by the Department during that period. However, we found that the Department did not have a clear process for identifying all of its other subrecipients and ensuring that these entities also completed and submitted the necessary audits. In addition, the Department did not review audit reports submitted by those entities that received federal pass-through funds from its Alcohol and Drug Abuse Division (ADAD).

In Fiscal Year 1997 the Department worked to clarify procedures for identifying all appropriate subrecipients, and it completed reviews of audit reports from ADAD subrecipients. However, in Fiscal Year 1998 the Department had not yet finalized a means of identifying all subrecipients other than the counties. If entities receiving $300,000 or more in federal funds cannot be identified, the Department cannot ensure that it is obtaining and reviewing all appropriate audit reports and following up on possible noncompliance. In addition, in Fiscal Year 1998 the Department did not complete its review process of audit reports from ADAD subrecipients that expended $300,000 or more in federal funds.

Department's Subrecipient Monitoring Should Consider County Reporting Under EBT

The Department also needs to consider the manner in which the counties report cash benefits paid to welfare recipients under EBT service in determining the nature and extent of departmental subrecipient monitoring activities. The manner in which counties report cash benefits under EBT could have an impact on the amount of audit work related to federal programs performed by the counties' independent auditors during the annual audits. The Department relies on these audits as one means of monitoring county compliance with state and federal requirements.

Prior to the implementation of EBT, counties reported the federal share of cash benefit payments on their Schedule of Expenditures of Federal Awards (Schedule), as well as federal monies received for other purposes such as program administration. The Schedule must be included as part of an entity's annual audited financial statements if the entity expends $300,000 or more of federal funds during its fiscal year.

EBT was implemented across the State from February 1997 through February 1998, and under this new system the state and federal share of public assistance cash benefits no longer flows through county bank accounts; instead, recipients access benefits through the banking system by using debit cards. If counties do not report the federal share of EBT payments on their Schedules of Expenditures of Federal Awards, the counties will reflect significantly lower levels of federal assistance. In one county, for example, we estimated federal EBT cash benefits would have accounted for over 40 percent of the county's federal assistance if the county had been on EBT for the entire fiscal year.

The level of federal expenditures reported by a county is important because the counties' independent auditors use the level of federal expenditures as a major factor in determining the amount of audit work related to federal assistance they will complete during the annual county audits. If counties report lower levels of federal assistance, CPA firms may decrease the amount of testing related to compliance for federal program requirements. Therefore, the Department needs to be aware of whether or not a county is including the federal share of EBT cash benefit payments on its Schedule and assess the need for additional follow-up and monitoring.

It is important for the Department to have adequate monitoring in place for counties because counties continue to administer the federal public assistance programs by determining recipients' eligibility and amount of benefits, and the counties are responsible for meeting the objectives of federal programs. As noted earlier, the Department is responsible for ensuring that subrecipients use federal funds in a manner consistent with authorized purposes and in compliance with federal requirements.

County Reporting Under EBT Is Not Consistent

We reviewed a sample of ten county audit reports for the year ending December 31, 1997, for counties that had implemented EBT during 1997. We found that five counties did not disclose whether or not they reported the federal share of EBT cash benefit payments on their Schedule. Therefore, it was not possible to determine the manner in which EBT cash payments were reported on the Schedule. Out of the five that disclosed the manner of treatment, one county reported it had excluded the federal share from its Schedule, and the other four reported that the Schedule included the federal share of EBT cash benefit payments.

Professional guidance has not been issued regarding reporting of EBT payments in the type of situation encountered by the counties, where the cash flow no longer mirrors the level of administrative responsibility. Until such guidance is issued, it is appropriate for the counties to report the federal share of EBT cash payments on county Schedules because the counties continue to administer the related federal programs. In addition, counties need to disclose the reporting treatment used for these payments on both the financial statements and the Schedule.

The Department has communicated to the counties during various EBT training sessions that it supports this manner of reporting by the counties. If the counties do not handle EBT reporting matters consistently and disclose their practices, the usefulness of county annual financial reports is decreased because reporting for EBT cash benefits is not consistent among counties. Further, the reader may not be aware of the lack of comparability because related disclosures are not included in the reports.

Department Needs to Ensure Subrecipient Compliance With Federal Audit Requirements

The purpose of identifying subrecipients and performing reviews of their annual audits is for the Department to meet its responsibility to ensure that problems with the administration of federal programs identified by the subrecipients' auditors are followed up on and resolved. While the Department is fulfilling this responsibility for the majority of federal funds that it oversees, additional effort is needed to ensure that all subreceipients are identified and that required audit reports are received and reviewed, including those for ADAD. In addition, the Department's monitoring activities should take into consideration the possible impact of changes in reporting of federal expenditures under EBT and potential lessening of compliance work performed during county annual audits.

Recommendation No. 15:

The Department of Human Services should ensure that federal audit requirements for subrecipients of federal awards are met by:

a. Identifying subrecipients that receive $300,000 or more in federal awards from the Department.

b. Obtaining and reviewing all required audit reports and following up on instances of noncompliance as needed.

c. Determining whether the federal share of Electronic Funds Transfer (EBT) cash payments is appropriately included in county Schedules of Expenditures of Federal Awards.

d. Assessing and ensuring that departmental monitoring activities for counties are adequate under EBT, in cases where there may be a decrease in audit work performed on federal programs by independent auditors during county annual audits.

Department of Human Services Response:

a. Agree. The Department currently has databases that identify most of the subrecipients for the Department. County subrecipients are identified and tracked through the automated systems of Automated Personnel Payroll System (APPLS) and County Automated Payments System (CAPS).

   Subrecipients, other than counties, are identified and tracked through the COFRS GPP14 Report. This report does have some weaknesses which the Department will work to correct, as much as feasible, so that a more accurate listing will be available.

   Implementation date: Ongoing/September 1, 1999.

b. Agree. The Department does have a process for obtaining all audit reports and steps will be taken to ensure that the reports are reviewed and followed up on in a timely manner.

   Implementation date: Ongoing/March 1, 1999.

c. Agree. Currently EBT cash payment inclusion in the county Schedules of Expenditures of Federal Awards is determined in the cursory initial review and also in the subsequent in-depth review using the Field Audit Desk Review guidelines. Contact is made with counties that have not included the information. The Department will prepare a written policy for redistribution to county departments and Certified Public Accountants (CPAs) outlining the need for consistent disclosure of this information.

Implementation date: Ongoing/July 1, 1999.

d. Agree. The Department does assess and ensure adequate monitoring activities through the review identified in c. above; however, as noted, additional information will be sent to county departments and CPA firms emphasizing the need for full disclosure of EBT cash payments.

Implementation date: Ongoing/July 1, 1999.